

Message Text

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ORIGIN EUR-12

INFO OCT-01 ISO-00 EB-07 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 FEAE-00 FPC-01 H-02 INR-07

INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 SAM-01 OES-03

SP-02 SS-15 STR-01 TRSE-00 FRB-03 PA-01 USIA-06

PRS-01 /091 R

DRAFTED BY EUR/CAN:DCHOLTON:MGH

APPROVED BY EUR-RDVINE

EB/ORF/FSE:LRRAICHT

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P 181910Z MAR 75

FM SECSTATE WASHDC

TO AMEMBASSY OTTAWA PRIORITY

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E.O. 11652: N/A

TAGS: ENRG, CA, US

SUBJECT: US-CANADA BILATERAL ENERGY MEETING MARCH 17

REF: STATE 55820

1. SUMMARY: PRINCIPAL ACCOMPLISHMENT AT ENERGY TALKS WAS ESTABLISHMENT OF JOINT WORKING GROUP TO STUDY POSSIBILITY OF OIL SWAP ARRANGEMENTS. OTHER IMPORTANT POINTS INCLUDED CANADIAN WARNING OF LIKELIHOOD OF REDUCTION IN ESTIMATES OF GAS AND OIL EXPORT CAPACITY, AND US EMPHASIS ON IMPORTANCE OF PRO-RATA TREATMENT IN NATURAL GAS SUPPLY. END SUMMARY.

2. GOVERNMENT ROLE IN POSSIBLE OIL EXCHANGES WAS SEEN AS LIMITED OFFICIAL USE

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ENCOURAGING AND FACILITATING COMMERCIAL DEALS. CANADIANS

MADE STRONG POINT THAT SUCH EXCHANGES WOULD HAVE TO PROVIDE EQUIVALENT BENEFITS TO CANADIAN OIL INDUSTRY. JOINT TECHNICAL LEVEL GROUP WILL MEET IN OTTAWA APRIL 2 TO DEFINE PROBLEMS AND CONSULT ON INFORMATION TO BE GATHERED AND OPTIONS TO BE EXPLORED. TWO SIDES WILL THEN CONSULT WITH INDUSTRY. ON BASIS OF INFORMATION, GROUP WILL MEET AGAIN TO ATTEMPT TO AGREE ON PREFERRED EXCHANGE OPTION AND GENERAL PRINCIPLES WHICH WOULD GOVERN COMMERCIAL ARRANGEMENTS. ON BASIS OF GROUP'S REPORT, TO BE COMPLETED BY JULY 1, TWO SIDES WILL MEET AGAIN. OTHER POINTS:

3. CANADIANS FEAR NATIONAL ENERGY BOARD OIL HEARINGS WILL RESULT IN FINDING THAT RESERVES INSUFFICIENT TO ALLOW OIL EXPORTS ON CURRENT SCHEDULE. THEY NOTED US DESIRE THAT REDUCTION TO 650 MBD ON JULY 1 BE RECONSIDERED IN LIGHT OF REDUCED IMPORTS BY US REFINERS AND SUBSTANTIAL SHUT-IN CAPACITY WHICH NOW EXISTS (350-400 MBD). FYI: HOPPER INDICATED PRIVATELY THAT PROSPECTS FOR MAINTENANCE 800 MBD EXPORT LIMIT FOR ENTIRE YEAR ARE FAIRLY GOOD. END FYI.

4. CANADIANS QUESTIONED US CLOSELY ON OIL PRICES IN US, INDICATING GOC WOULD HAVE POLITICAL PROBLEMS IN RAISING DOMESTIC PRICES ABOVE AVERAGE US PRICE. US SAID AVERAGE PRICE OF DOMESTIC US OIL IS AROUND \$8-\$8.50, AND AVERAGE PRICE OF ALL OIL CONSUMED IN US IS AROUND \$9-\$9.50.

5. US EMPHASIZED CONCERN OVER POSSIBILITY OF NATURAL GAS EXPORT CURTAILMENTS ARISING FROM RECENT NEB HEARINGS, RECOGNIZED RIGHT OF SOVEREIGN GOVERNMENTS TO IGNORE CONTRACTS, BUT STRESSED IMPORTANCE US ATTACHES TO COMMITMENTS MADE BY GOC AT TIME CONTRACTS WERE MADE, AND TO PRINCIPLE OF PRO-RATA TREATMENT. US URGED GOC TO CONSULT WITH USG BEFORE PUBLICLY COMMITTING ITSELF TO PARTICULAR COURSE OF ACTION. CANADIANS DID NOT RESPOND AT ALL TO THIS.

6. CANADIANS SAID NEB HOPES TO HAVE REPORT OF GAS HEARINGS FINISHED BY MID YEAR. SHORTFALLS APPEAR LIKELY IN NEXT YEAR OR TWO, AND NEB FORESEES ANNUAL LIMITED OFFICIAL USE

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SHORTAGE REACHING 100 BILLION CUBIC FEET PERHAPS AS EARLY AS NEXT WINTER SEASON DURING PEAK DEMAND PERIODS.

7. GOC INTENDS TO RAISE NATURAL GAS PRICES AFTER OBTAINING AGREEMENT FROM FORTHCOMING FIRST MINISTERS' MEETING. IF NO AGREEMENT THERE, GOC WILL SEEK PRICE SETTING AUTHORITY UNDER BILL C-32.

8. ANSWERING CANADIAN INQUIRY ABOUT US COAL, US ASSURED CANADA OF CONTINUING AVAILABILITY OF COAL AND POINTED OUT THAT USG HAS RESISTED PRESSURES TO CURTAIL SHIPMENTS TO CANADA. US INVITED GOC TO NOTIFY USG IF ANY PARTICULAR COAL SUPPLY PROBLEMS ARISE.

9. SUMMARY OF PRESS BRIEFING FOLLOWS IN SEPTEL. WILL POUCH BRIEFING TRANSCRIPT WITH MINUTES OF MEETING AND BACKGROUND MATERIAL. INGERSOLL

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, AGREEMENTS, MEETINGS, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 18 MAR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE060552
Document Source: CORE
Document Unique ID: 00
Drafter: DCHOLTON:MGH
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750094-0520
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750339/aaaabjbw.tel
Line Count: 124
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 STATE 55820
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 06 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <06 MAY 2003 by ElyME>; APPROVED <20 MAY 2003 by MorefiRH>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: US-CANADA BILATERAL ENERGY MEETING MARCH 17
TAGS: ENRG, CA, US
To: OTTAWA
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006